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REPORT TO THE CONGRESS

**Audit Of Federal Crop
Insurance Corporation
Fiscal Year 1969**

B-114834

AGC00515

Department of Agriculture

AGC00042

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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FEB. 6, 1970

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114834

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the audit of the Federal Crop Insurance Corporation, Department of Agriculture, for the fiscal year ended June 30, 1969. The audit was made pursuant to the Government Corporation Control Act (31 U.S.C. 841) and the Federal Crop Insurance Act (7 U.S.C. 1513).

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of Agriculture; the Secretary of the Treasury; and the Chairman of the Board of Directors, Federal Crop Insurance Corporation.

A handwritten signature in cursive script that reads "James P. Stacks".

Comptroller General
of the United States

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D I G E S T

WHY THE AUDIT WAS MADE

The Government Corporation Control Act and the Federal Crop Insurance Act require the General Accounting Office (GAO) to make an annual audit of the Federal Crop Insurance Corporation, Department of Agriculture, and to submit a report to the Congress on the results of the audit.

FINDINGS AND CONCLUSIONS

In GAO's opinion, the accompanying financial statements present fairly the financial position of the Corporation at June 30, 1969, the results of its operations, and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

The Corporation incurred a net operating loss of about \$18 million in fiscal year 1969, which comprised a net loss from insurance operations of about \$4.6 million and operating and administrative expenses of about \$13.3 million. The loss from insurance operations resulted primarily from severe losses on the insurance of cotton, citrus, peas, and apples. (See p. 5.)

At June 30, 1969, the Corporation's capital was impaired by about \$25.5 million. This impairment has occurred over the past 4 fiscal years. The further impairment of capital by about \$6.3 million in fiscal year 1969 resulted from the net loss from insurance operations of \$4.6 million, the payment from premium income of about \$1.6 million for operating and administrative expenses, and a deficit of about \$111,000 resulting from operating and administrative expenses which exceeded the funds appropriated for such expenses. (See p. 6.)

The Congress authorized the Secretary of the Treasury to subscribe to an additional \$10 million of the Corporation's capital stock to provide working capital for fiscal year 1970 and to partially overcome the large impairment of capital.

The Corporation's statement of income and expense (schedule 2) classifies operating and administrative costs by object class, such as personnel compensation, travel, agents' commissions, supplies, and materials.

The Corporation also prepares, for management purposes, annual cost statements showing, by function, its operating and administrative expenses. This report contains a table, as extracted from the Corporation's functional cost statements, showing the operating and administrative expenses, by function, for fiscal years 1969 and 1968. (See p. 9.)

RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations or suggestions requiring action by the Congress. It is submitted to the Congress as required by the Government Corporation Control Act to disclose the results of the annual audit of the Corporation and such other information as deemed necessary to keep the Congress informed on the operations and financial condition of the Corporation.

GENERAL COMMENTS

The General Accounting Office has made an audit of the Federal Crop Insurance Corporation (FCIC), Department of Agriculture, for the fiscal year ended June 30, 1969. The scope of the audit is described on page 10 of this report.

FCIC is a wholly owned Government corporation which was created in 1938 to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and by providing the means for the research and experience helpful in devising and establishing such insurance. FCIC insures crops against practically all causes of crop losses, including weather, insect infestation, and plant disease.

The Federal Crop Insurance Act (7 U.S.C. 1501) authorizes FCIC to fix premiums at rates to cover claims for crop losses and to establish a reserve against unforeseen losses. No authorization is provided, however, for fixing premiums at rates sufficient to cover operating and administrative expenses and the direct cost of loss adjustment--primarily costs of crop inspections and loss determinations. Section 516(a) of the act sets a limitation of \$12 million on the funds to be appropriated for each fiscal year to cover FCIC's operating and administrative expenses and also authorizes FCIC to pay the direct cost of loss adjustment and part of its operating and administrative expenses from premium income.

For a number of years the annual appropriation acts have provided funds from two sources--appropriations and funds derived from premium income--with which to pay operating and administrative expenses. FCIC received an appropriation of \$11,243,500 for fiscal year 1969 (82 Stat. 639). The appropriation act provided also that FCIC could pay up to \$2,140,000 of operating and administrative expenses from premium income. An additional \$274,000 was provided to FCIC by the Second Supplemental Appropriation Act, 1969 (83 Stat. 38), approved June 18, 1969.

The management of FCIC is vested in a Board of Directors subject to appointment and general supervision by the

Secretary of Agriculture. The Board consists of the manager of FCIC, two other persons employed in the Department of Agriculture, and two persons experienced in the insurance business who are not otherwise employed by the Government. The principal officials of FCIC during fiscal year 1969 are listed in appendix II.

OPERATIONS

INSURANCE ACTIVITY FOR FISCAL YEAR 1969

FCIC incurred a net operating loss of about \$18 million in fiscal year 1969 which comprised a net loss from insurance operations of about \$4.6 million, including a cost of loss adjustment of about \$2.2 million (principally for crop year 1968), and of operating and administrative expenses of about \$13.3 million.

FCIC's insurance coverage totaled about \$874 million on 24 different agricultural commodities for crop year 1968, and it is expected to exceed \$915 million in crop year 1969. For crop year 1968, the premiums on insured crops amounted to about \$48.9 million and the indemnities amounted to about \$51.1 million. For some insured crops, indemnities exceeded premiums by substantial amounts, as shown below.

<u>Crop</u>	<u>Premiums</u>	<u>Indemnities</u>	<u>Excess indemnities</u>
Cotton	\$6,754,707	\$12,934,420	\$6,179,713
Citrus	2,589,388	5,693,579	3,104,191
Pea, green	474,511	1,395,449	920,938
Apple	282,599	952,057	669,458

Although the indemnities exceeded the premiums on some insured crops, the premiums exceeded the indemnities on other insured crops as shown below.

<u>Crop</u>	<u>Premiums</u>	<u>Indemnities</u>	<u>Excess premiums</u>
Corn	\$8,309,368	\$5,477,375	\$2,831,993
Tobacco	3,914,993	2,092,137	1,822,856
Soybean	4,423,766	3,467,903	955,863
Barley	1,025,957	449,203	576,754

For crop year 1968, premiums on the insurance of wheat almost equaled the indemnities paid in contrast to an excess of indemnities over premiums of about \$2 million in crop year 1967.

FCIC is authorized by section 508(a) of the act, to expand its operations to not more than (1) three additional agricultural commodities and (2) 150 additional counties each year. In crop year 1968, FCIC expanded its operations from 1,363 to 1,395 counties, including, for the first time, counties in the State of Delaware. This expansion has increased the number of States in which FCIC conducts insurance operations to 39. FCIC did not add any additional crops to its insurance coverage during crop year 1968.

On June 26, 1969, FCIC exercised its option to renew a reinsurance agreement with the Farm Insurance of Puerto Rico (the company), pursuant to section 508(f) of the act and its original agreement with the company which expired on April 30, 1969. The renewal agreement covers the period May 1, 1969, through April 30, 1970, with an option to renew in succeeding years.

The main difference between the renewal and the original agreement is a reduction in FCIC's participation from 22 percent to 15.25 percent in the company's insurance of specified commodities, subject to specified maximums, against damage from hurricanes and squalls on the island of Puerto Rico. Under the agreement FCIC receives 15.25 percent of the premiums collected, less 15.25 percent of the losses and the cost of loss adjustment, and less certain commissions. During fiscal year 1969, the first year under the reinsurance agreement, FCIC realized a net income of \$58,108.

IMPAIRMENT OF CAPITAL

At June 30, 1969, FCIC's capital of \$40 million was impaired by \$25,510,035. This impairment of capital occurred over the past 4 fiscal years, as follows:

Fiscal year	1966	\$ 8,873,118
"	" 1967	-6,211,349
"	" 1968	16,538,784
"	" 1969	<u>6,309,482</u>
		<u>\$25,510,035</u>

The further impairment of capital in fiscal year 1969 resulted from the net loss from insurance operations of about \$4.6 million, the payment from premium income of about \$1.6 million for operating and administrative expenses, and a deficit of about \$111,000 resulting from operating and administrative expenses which exceeded the funds appropriated for such expenses.

For fiscal year 1970, the Congress appropriated \$12 million and authorized the payment of \$1.6 million from premium income for operating and administrative expenses. In addition, to partially overcome the large impairment of capital, the Congress authorized the Secretary of the Treasury to subscribe to an additional \$10 million of FCIC capital stock to provide working capital for the coming year.)

INSURANCE EXPERIENCE

As shown in schedule 4, FCIC's insurance of crops during crop years 1948 through 1968 resulted in an excess of premiums over indemnities for damage to the crops of about \$16.9 million--a favorable loss ratio of 97 percent--which comprised:

Excess premiums from insurance of certain crops--
\$58.7 million.

Excess indemnities from insurance of other crops--
\$41.8 million.

The major portion of the excess indemnities, or losses, was incurred on the insurance of the following crops.

<u>Crop</u>	<u>Premiums</u>	<u>Indemnities</u>	<u>Losses</u>
Cotton	\$46,916,980	\$62,621,200	\$15,704,220
Citrus	12,058,012	21,280,614	9,222,602
Combined crop	31,584,081	37,228,572	5,644,491
Corn	71,198,362	75,991,636	4,793,274

Of these crops, the indemnities for damages to cotton crops exceeded the premiums in 8 years of the 21-year period and the indemnities for damages to citrus crops exceeded the premiums in 7 of the 18 years that these crops were insured.

The following table lists those crops on which the major portion of the excess premiums was realized and which helped to offset the losses on other crops, such as those shown in the above table.

<u>Crop</u>	<u>Premiums</u>	<u>Indemnities</u>	<u>Excess premiums</u>
Tobacco	\$ 50,227,789	\$ 27,960,331	\$22,267,458
Wheat	222,457,366	202,449,145	20,008,221
Soybean	25,502,193	22,111,175	3,391,018
Barley	9,025,596	6,158,970	2,866,626

For these crops the insurance premiums consistently exceeded the indemnities for damages to the crops. For example, excess premiums were realized on the insurance of tobacco in 20 years of the 21-year period, and on soybeans for 12 of the 14 years that the crops were insured.

OPERATING AND ADMINISTRATIVE EXPENSES

FCIC's comparative statement of income and expense for fiscal years 1969 and 1968 (schedule 2, p. 14) shows that the operating and administrative costs for fiscal year 1969 amounted to \$13.3 million compared with \$12.8 million for fiscal year 1968, an increase of about one half of a million dollars. The costs in the statement of income and expense are classified by object class, such as personnel compensation, travel, agents' commissions, supplies, and materials.

FCIC also prepares, internally, for management purposes, annual cost statements showing, by function, its operating and administrative expenses. The following table, as extracted from FCIC's functional cost statements, shows the operating and administrative expenses, by function, for fiscal years 1969 and 1968.

<u>Function</u>	Fiscal year <u>1969</u>	Fiscal year <u>1968</u>
Marketing of insurance:		
Sales promotion	\$ 841,053	\$ 831,321
Selling	3,758,759	3,665,171
County offices	1,522,432	1,290,168
Agents' agreements (note a)	1,158,285	1,428,940
Sales management	<u>249,293</u>	<u>231,640</u>
Total	<u>7,529,822</u>	<u>7,447,240</u>
Program operations:		
Program development	125,724	144,873
Applications	572,963	589,768
Acreage reports	1,163,450	987,165
Collections	676,356	741,440
Program management	<u>287,051</u>	<u>291,763</u>
Total	<u>2,825,544</u>	<u>2,755,009</u>
Loss adjustment	1,757,593	1,641,984
Actuarial	1,147,922	950,607
Unallocated (note b)	<u>-6,034</u>	<u>-11,206</u>
Total operating and administrative expenses	<u>\$13,254,847</u>	<u>\$12,783,634</u>

^aDiffers from agents' commissions as shown in FCIC's income and expense statement (schedule 2) because the item "Agents' agreements" includes salaries and adjustments which are included in personnel costs and prior year adjustments in schedule 2.

^bRepresents reimbursements which in the income and expense statement (schedule 2) are applied against related expenses.

SCOPE OF AUDIT

Our audit included such tests of FCIC's accounting records and financial transactions and such other auditing procedures as we deemed appropriate in view of the nature and volume of transactions, the effectiveness of the system of internal control, and the audit work performed by the Office of the Inspector General, Department of Agriculture.

OPINION OF FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements (schedules 1 through 5) of the Federal Crop Insurance Corporation present fairly its financial position at June 30, 1969, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

FINANCIAL STATEMENTS

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1969 AND 1968

	<u>Year ended June 30</u>	
	<u>1969</u>	<u>1968</u>
ASSETS		
CASH:		
Insurance program funds	\$14,906,743	\$22,025,093
Funds appropriated for operating and administrative expenses	<u>1,651,905</u>	<u>1,913,402</u>
Total	<u>16,558,648</u>	<u>23,938,495</u>
ACCOUNTS AND NOTES RECEIVABLE	26,523,344	24,495,810
Less estimated bad debts	<u>1,375,697</u>	<u>1,561,888</u>
Total	<u>25,147,647</u>	<u>22,933,922</u>
FURNITURE AND EQUIPMENT:		
Cost or transferred value	511,916	502,223
Less accumulated depreciation	<u>280,353</u>	<u>261,591</u>
Total	<u>231,563</u>	<u>240,632</u>
Total assets	<u>\$41,937,858</u>	<u>\$47,113,049</u>
LIABILITIES AND INVESTMENT		
ACCOUNTS PAYABLE AND OTHER LIABILITIES:		
Agents' commissions payable	\$ 873,988	\$ 1,064,002
Employees' accrued annual leave	713,577	671,629
Estimated indemnities payable	2,794,468	2,171,096
Accrued payroll and other liabilities	<u>913,133</u>	<u>903,132</u>
Total	<u>5,295,166</u>	<u>4,809,859</u>
DEFERRED PREMIUMS AND COSTS:		
1969 crop year premiums, less approved indemnity claims, re-insurance expense, and bad debt expense (note 1)	<u>22,077,727</u>	<u>21,428,743</u>
Total liabilities	<u>27,372,893</u>	<u>26,238,602</u>
PROVISION FOR SURETY LOSSES (note 6)	<u>75,000</u>	<u>75,000</u>
INVESTMENT OF U.S. GOVERNMENT:		
Capital stock (authorized \$100,000,000) issued and outstanding (note 4)	40,000,000	40,000,000
Insurance program deficit (schedule 4)	-25,067,637	-18,869,179
Administrative fund deficit (schedule 5)	<u>-442,398</u>	<u>-331,374</u>
Total investment of U.S. Government	<u>14,489,965</u>	<u>20,799,447</u>
Total liabilities and investment	<u>\$41,937,858</u>	<u>\$47,113,049</u>

The notes following schedule 5 are an integral part of this statement.

SCHEDULE 2

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

FISCAL YEARS 1969 AND 1968

	Fiscal year <u>1969</u>	Fiscal year <u>1968</u>
INSURANCE OPERATIONS:		
Premiums	\$48,873,196	\$43,503,770
Indemnities	<u>51,083,518</u>	<u>55,183,412</u>
Excess of indemnities or premiums(-)	2,210,322	11,679,642
Cost of loss adjustment	2,197,914	2,254,163
Provision for losses on accounts receivable	20,261	310,059
Other expense or income(-)	<u>191,790</u>	<u>-2,671</u>
Net loss or income(-) from direct insurance operations	4,620,287	14,241,193
Reinsurance premiums	96,344	-
Reinsurance commissions and claims	<u>38,236</u>	<u>-</u>
Net loss or income(-) from reinsurance	<u>-58,108</u>	<u>-</u>
Net loss or income(-) from insurance operations	<u>4,562,179</u>	<u>14,241,193</u>
OPERATING AND ADMINISTRATIVE EXPENSES:		
Personnel compensation	8,116,024	7,573,862
Personnel benefits	623,130	566,350
Travel and transportation of persons	1,507,253	1,437,745
Transportation of things	21,159	29,702
Rent, communications and utilities	633,044	655,850
Printing and reproduction	170,622	145,006
Other contractual services	913,950	890,487
Agents' commissions	1,194,071	1,397,565
Supplies and materials	79,222	62,728
Expendable equipment	22,755	30,415
Administrative claims	15	-
Depreciation expense	30,904	28,027
Net loss on sale and transfer of equipment	3,010	1,383
Accrued annual leave	41,948	28,889
Prior year adjustments--other accrued operating and administrative expenses	<u>-102,260</u>	<u>-64,375</u>
Total operating and administrative expenses (note a)	<u>13,254,847</u>	<u>12,783,634</u>
NET LOSS FROM OPERATIONS	<u>\$17,817,026</u>	<u>\$27,024,827</u>

^a\$1,735,039 paid from premium income in 1969 and \$2,407,018 paid from premium income in 1968, a decrease of \$671,979 (note 2).

The notes following schedule 5 are an integral part of this statement.

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF SOURCES AND APPLICATION OF FUNDS

FISCAL YEARS 1969 AND 1968

	Fiscal year <u>1969</u>	Fiscal year <u>1968</u>
FUNDS PROVIDED:		
Premium income	\$48,873,196	\$43,503,770
Reinsurance premiums	96,344	-
Appropriation for operating and administrative expense	11,517,500	10,208,000
Appropriation transfer from Agricultural Stabilization and Conservation Service	-	281,000
Reduction in prior years' operating and administrative expense paid from premium income	98,760	65,739
Interest income	5,530	4,639
Decrease in working capital	<u>6,418,076</u>	<u>16,377,514</u>
Total funds provided	<u>\$67,009,406</u>	<u>\$70,440,662</u>
FUNDS APPLIED:		
Cost of indemnities	\$51,083,518	\$55,183,412
Reinsurance commissions and claims	38,236	-
Cost of loss adjustment	2,197,914	2,254,163
Operating and administrative expenses:		
Charged to appropriated funds	11,542,707	10,384,056
Charged to insurance funds	1,735,039	2,407,018
Purchase of fixed assets	24,844	65,688
Miscellaneous expense	197,320	1,968
Appropriation transfer to General Services Administration	9,956	2,277
Debts receivable charged off	179,872	141,400
Reserve for savings	<u>-</u>	<u>680</u>
Total funds applied	<u>\$67,009,406</u>	<u>\$70,440,662</u>

The notes following schedule 5 are an integral part of this statement.

FEDERAL CROP INSURANCE CORPORATION

COMPUTATION OF INSURANCE RESERVE

FOR CROP YEAR 1968 AND CUMULATIVE FOR CROP YEARS 1948 THROUGH 1968

AS OF JUNE 30, 1969

Crop	Crop year 1968			
	Premiums	Indemnities	Excess of premiums or indemnities(-)	Loss ratio (ratio of indemnities to premiums)
Apple	\$ 282,599	\$ 952,057	\$ -669,458	3.37
Barley	1,025,957	449,203	576,754	.44
Bean	377,187	507,272	-130,085	1.34
Cherry	-	-	-	-
Citrus	2,589,388	5,693,579	-3,104,191	2.20
Combined crop	473,015	49,297	423,718	.10
Corn	8,309,368	5,477,375	2,831,993	.66
Cotton	6,754,707	12,934,420	-6,179,713	1.91
Flax	511,233	183,517	327,716	.36
Grain sorghum	1,213,839	1,227,776	-13,937	1.01
Grape	112,908	140,875	-27,967	1.25
Oat	800,639	316,073	484,566	.39
Pea, dry	44,525	44,470	55	.99
Pea, green	474,511	1,395,449	-920,938	2.94
Peach	399,825	94,141	305,684	.24
Peanut	807,857	431,359	376,498	.53
Potato (note a)	71,571	-90,137	161,708	-
Raisin	410,937	14,276	396,661	.03
Rice	62,535	48,045	14,490	.77
Safflower	-	-	-	-
Soybean	4,423,766	3,467,903	955,863	.78
Sugar beet	615,999	402,297	213,702	.65
Sugar cane	171,350	34,979	136,371	.20
Tobacco	3,914,993	2,092,137	1,822,856	.53
Tomato	51,507	48,959	2,548	.95
Tung nut	8,083	39,773	-31,690	4.92
Wheat	14,964,897	15,128,423	-163,526	1.01
Total	<u>\$48,873,196</u>	<u>\$51,083,518</u>	-2,210,322	1.05
Direct cost of loss adjustment(-)			-2,197,914	
Other income and expense(-), net			-212,051	
Net income from reinsurance			<u>58,108</u>	
Net income or loss(-) from insurance operations excluding operating and administrative expenses			-4,562,179	
Premium income applied to operating and administrative expenses			<u>-1,636,279</u> (note 2)	
Insurance program deficit(-)			<u>\$-6,198,458</u>	

^aEstimated indemnities payable of \$187,779 for the 1966 crop year which were included in the 1968 report were reversed as of July 1, 1968. This payable was recorded again at June 30, 1969, but is now included under other income and expense. The actual fiscal year change was \$97,643 in indemnities which resulted in an excess of indemnities of \$26,072 and a loss ratio of 1.36.

The notes following schedule 5 are an integral part of this statement.

Crop years 1948 through 1968

<u>Premiums</u>	<u>Indemnities</u>	<u>Excess of premiums or indemnities(-)</u>	<u>Loss ratio (ratio of indemnities to premiums)</u>
\$ 1,161,857	\$ 1,684,594	\$ -522,737	1.45
9,025,596	6,158,970	2,866,626	.68
4,122,930	4,964,244	-841,314	1.20
149,954	391,504	-241,550	2.61
12,058,012	21,280,614	-9,222,602	1.76
31,584,081	37,228,572	-5,644,491	1.18
71,198,362	75,991,636	-4,793,274	1.07
46,916,980	62,621,200	-15,704,220	1.33
13,199,196	10,582,293	2,616,903	.80
5,213,240	3,959,193	1,254,047	.76
201,686	231,165	-29,479	1.15
4,186,726	2,167,873	2,018,853	.52
339,919	223,171	116,748	.66
2,262,279	4,538,844	-2,276,565	2.01
3,312,645	4,474,948	-1,162,303	1.35
4,308,665	2,561,987	1,746,678	.59
1,214,448	2,584,319	-1,369,871	2.13
2,716,637	1,405,666	1,310,971	.52
371,524	188,250	183,274	.51
2,290	8,999	-6,709	3.93
25,502,193	22,111,175	3,391,018	.87
1,542,412	934,473	607,939	.61
263,690	41,290	222,400	.16
50,227,789	27,960,331	22,267,458	.56
198,135	134,190	63,945	.68
75,669	52,226	23,443	.69
<u>222,457,366</u>	<u>202,449,145</u>	<u>20,008,221</u>	.91
<u>\$513,814,281</u>	<u>\$496,930,872</u>	16,883,409	.97
		-16,541,320	
		-1,474,263	
		<u>58,108</u>	
		-1,074,066	
		<u>-23,993,571</u>	
		<u>\$-25,067,637</u> (Schedule 1)	

SCHEDULE 5

FEDERAL CROP INSURANCE CORPORATION

ANALYSIS OF DEFICIT IN ADMINISTRATIVE FUND

FOR FISCAL YEARS 1949 THROUGH 1969

	July 1, 1948 through <u>June 30, 1968</u>	Fiscal year <u>1969</u>	July 1, 1948 through <u>June 30, 1969</u>
COMPUTATION OF DEFICIT:			
Administrative fund expenses:			
Total operating and administrative expenses	\$154,707,597	\$13,254,847	\$167,962,444
Less premium income applied to operating and administrative expenses	<u>22,357,292</u>	<u>1,636,279</u>	<u>23,993,571</u>
Total	<u>132,350,305</u>	<u>11,618,568</u>	<u>143,968,873</u>
Deduct net appropriations:			
Appropriations	139,058,242	11,517,500	150,575,742
Less lapses, recisions and net transfers	<u>7,039,311</u>	<u>9,956</u>	<u>7,049,267</u>
Net appropriations	<u>132,018,931</u>	<u>11,507,544</u>	<u>143,526,475</u>
Administrative fund deficit (Schedule 1)	<u>\$ 331,374</u>	<u>\$ 111,024</u>	<u>\$ 442,398</u>
ANALYSIS OF DEFICIT:			
Noncash charges:			
Accrued annual leave	\$ 671,629	\$ 41,948	\$ 713,577
Depreciation	331,767	30,904	362,671
Net loss on equipment dispositions	18,290	3,010	21,300
Equipment adjustment	59,527	-	59,527
Depreciation adjustment	<u>24,487</u>	<u>-</u>	<u>24,487</u>
Total	1,105,700	75,862	1,181,562
Less:			
Furniture and equipment acquisitions capitalized	674,703	24,844	699,547
Undelivered orders	<u>99,623</u>	<u>-60,006</u>	<u>39,617</u>
Administrative fund deficit	<u>\$ 331,374</u>	<u>\$ 111,024</u>	<u>\$ 442,398</u>

The notes following this schedule are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS--JUNE 30, 1969

1. Accounting Basis

Insurance operations shown for fiscal year 1969 relate principally to the 1968 crop year. Crop year 1969 premiums and unapplied cash collections totaling \$23,013,424 have been deferred for inclusion in fiscal year 1970 accounts. In a like manner the estimate of possible losses in the collection of 1969 crop year premiums and approved 1969 crop year indemnities have been deferred. These two items total \$935,697.

Operating and administrative expenses are not allocated to crop years but are recorded and accounted for in the fiscal year in which the expense was paid or incurred.

2. Source of Funds for Operating and Administrative Expenses

The Corporation received an appropriation of \$11,243,500 (Public Law 90-463 approved August 8, 1968) for fiscal year 1969. The Law also provided that the Corporation may pay up to \$2,140,000 of operating and administrative expenses from premium income. An amount of \$274,000 was transferred to the Corporation pursuant to the Second Supplemental Appropriation Act, 1969 (Public Law 91-47 approved July 22, 1969). The operating and administrative expenses paid from premium income consisted of \$1,735,039 for expenses applicable to fiscal year 1969, less an adjustment of \$98,760 for prior fiscal years' expenses.

3. Services and Benefits Furnished the Corporation

Services and benefits, the estimated costs of which are not for the most part readily determinable, have been furnished to the Corporation by other Government agencies without charge. Among these are rentals for field office space paid by the General Services Administration, audit and investigative services provided by the Office of the Inspector General of the Department of Agriculture, legal services rendered by the Departments of Agriculture and

Justice, and disbursing services furnished by the Treasury Department. The Corporation is not required to pay interest on the Government's investment in capital stock (\$40,000,000 at June 30, 1969) and does not receive interest on its funds on deposit with the Treasury (\$14,906,743 at June 30, 1969).

4. Investment of U.S. Government

A net loss of \$73,000,000 was sustained from insurance operations through the 1947 crop year. The loss was offset by cancellation of an equal amount of outstanding capital stock pursuant to section 5 of the Act of August 25, 1949, (63 Stat. 665). In August 1955, the Secretary of the Treasury subscribed and paid for \$13,000,000 of the unissued capital stock pursuant to the Supplemental Appropriation Act, 1957 (70 Stat. 678). During fiscal year 1962, the accumulated deficit from appropriated funds was reduced by \$50,097,996, which represented the total expense for fiscal years 1938 through 1948. This adjustment was made in order to report operating and administrative expenses on a basis comparable with operations of the insurance fund.

5. Reserve for Uncollectible Debts Receivable

As of June 30, 1969, the Corporation changed its provision for Uncollectible Debts Receivable from .8 percent of premiums earned to .65 percent of premiums earned. The reserve for 1967 and prior crop year premiums was reduced \$225,657. The reserve for 1968 crop year premiums and deferred 1969 crop year premiums was established at the .65 percent rate.

6. Contingent Liabilities

The Corporation customarily has a contingent liability under the Federal Tort Claims Act for various unresolved small claims arising out of automobile accidents or for other wrongful acts of employees. Corporation officials believe the reserve for surety losses which was established in lieu of bonding of employees is sufficient to cover any liability that may arise.

APPENDIXES

UNITED STATES DEPARTMENT OF AGRICULTURE
FEDERAL CROP INSURANCE CORPORATION
Washington, D.C. 20250

Jan. 9, 1970

Mr. Victor L. Lowe, Associate Director
Civil Division
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Lowe:

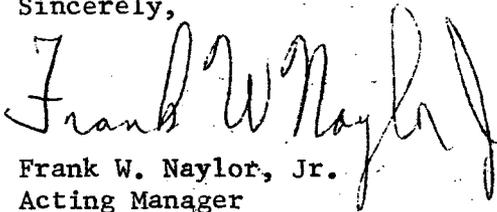
This acknowledges receipt of the draft of your proposed audit report to Congress on the examination of the financial statements of the Corporation for the fiscal year 1969.

In view of the fact no recommendations or suggestions for Corporation action are set forth, and no exception is taken to the Corporation's financial statements, we have no comment to make with respect to the report itself.

We do note, however, that for the first time a functional cost schedule is included in the report draft in the section entitled "Operations." If such a report is considered necessary for presentation to Congress and the public, we feel it would be more meaningful if the grouping of costs by category were made consistent with cost categories presented in the President's budget. The Corporation prepares a variety of internal management reports, all or any of which could be misleading if set forth in a manner that differed from the formal budget presentation.

We appreciate the opportunity to review the report before it is sent to Congress.

Sincerely,



Frank W. Naylor, Jr.
Acting Manager

PRINCIPAL OFFICIALS OF THE
FEDERAL CROP INSURANCE CORPORATION
DEPARTMENT OF AGRICULTURE
FISCAL YEAR 1969

<u>Present Officials</u>	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF AGRICULTURE: Clifford M. Hardin	Jan. 1969	Present
UNDER SECRETARY OF AGRICULTURE: J. Phil Campbell, Jr.	Jan. 1969	Present
BOARD OF DIRECTORS:		
Clarence D. Palmby, Chairman (Assistant Secretary)	June 1969	Present
Carroll G. Brunthaver (Associate Administrator, Agricultural Stabilization and Conservation Service)	June 1969	Present
Richard H. Aslakson (Manager, Federal Crop Insurance Corporation)	June 1969	Present
Fred W. Benson (Industry Mem- ber)	July 1969	Present
Elmo A. Carlson (Industry Member)	July 1969	Present
CORPORATION OFFICIALS:		
Richard H. Aslakson, Manager	Feb. 1969	Present
Frank Naylor, Jr. Deputy Manager	May 1969	Present
 <u>Former Officials</u> 		
SECRETARY OF AGRICULTURE: Orville L. Freeman	Jan. 1961	Dec. 1968

PRINCIPAL OFFICIALS OF THE
FEDERAL CROP INSURANCE CORPORATION

DEPARTMENT OF AGRICULTURE

FISCAL YEAR 1969 (continued)

<u>Former Officials</u>	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
UNDER SECRETARY OF AGRICULTURE:		
John A. Schnittker	June 1965	Dec. 1968
BOARD OF DIRECTORS:		
John A. Schnittker, Chairman (Under Secretary of Agriculture)	June 1965	Dec. 1968
Horace D. Godfrey (Administrator Agricultural Stabilization and Conservation Service)	Aug. 1963	June 1969
John N. Luft (Manager, Federal Crop Insurance Corporation)	Mar. 1961	Feb. 1969
John Koll Benoit, Sr. (Industry Member)	Apr. 1966	July 1969
Irving W. Severtsen (Industry Member)	Dec. 1965	July 1969
CORPORATION OFFICIALS:		
John N. Luft, Manager	Mar. 1961	Jan. 1969
Jack H. Morrison, Deputy Manager	June 1961	Feb. 1969